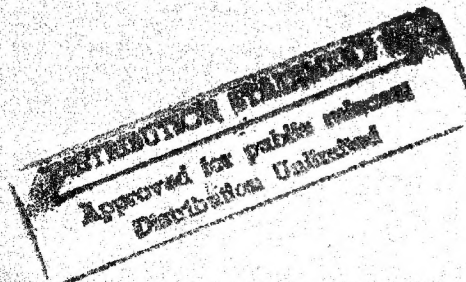
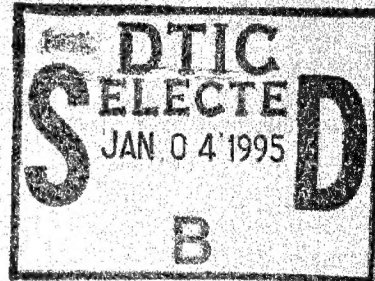


December 1994

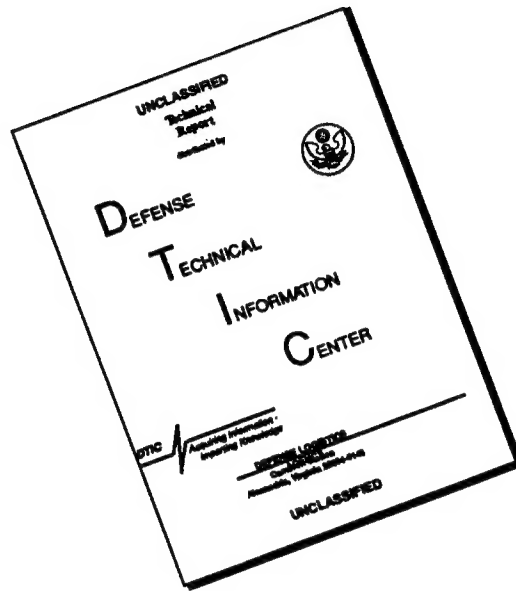
DEFENSE SUPPLY

Acquisition Leadtime Requirements Can Be Significantly Reduced



19941230 004

DISCLAIMER NOTICE



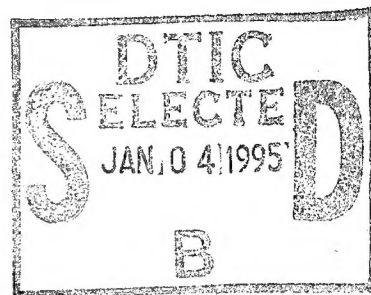
THIS DOCUMENT IS BEST QUALITY AVAILABLE. THE COPY FURNISHED TO DTIC CONTAINED A SIGNIFICANT NUMBER OF PAGES WHICH DO NOT REPRODUCE LEGIBLY.

National Security and
International Affairs Division

B-259446

December 20, 1994

The Honorable William J. Perry
The Secretary of Defense



Dear Mr. Secretary:

Acquisition leadtime (formerly called procurement leadtime) is used in inventory management systems to determine the quantity of items needed to meet demand during the time required to order and receive replenishment stocks. Acquisition leadtime is divided into administrative leadtime (the time required to award a contract) and production leadtime (the time for the contractor to deliver an item). Overstated leadtimes can cause unnecessary inventory investment. Conversely, understated leadtimes can cause material shortages and reduced readiness.

During the 1980s, the Department of Defense's (DOD) acquisition leadtime requirements grew by \$13 billion. In 1990, DOD recognized that leadtimes were excessive and directed the military services and the Defense Logistics Agency (DLA) to take a number of initiatives designed to reduce leadtimes by 25 percent. This report addresses (1) the effectiveness of DOD's leadtime reduction initiatives and (2) additional opportunities to reduce leadtimes.

Results in Brief

DOD has made only limited progress in reducing acquisition leadtime because its leadtime reduction initiatives have been unevenly implemented by the military services and DLA. For example, the Navy acted aggressively to effectively implement most of DOD's initiatives and reduced its leadtime by 27 percent over the past 4 years. Conversely, the Air Force did little to implement the initiatives and experienced a 1-percent increase in its leadtime.

We also identified opportunities to reduce leadtime that were overlooked by the DOD initiatives. We believe that DOD can reduce acquisition leadtime days by at least 25 percent over a 4-year period at a savings of about \$1 billion. This reduction can be accomplished by renewing the emphasis on prompt implementation of DOD's 1990 initiatives, periodically validating and updating old leadtime data for long leadtime items, and considering leadtime reductions as a factor in deciding whether to continue purchasing spare parts from the prime contractor or to purchase them from the actual manufacturer.

Acquisition For	
WTS GRAAL	<input checked="" type="checkbox"/>
INTO RAD	<input type="checkbox"/>
Unannounced	<input type="checkbox"/>
Justification	
By _____	
Distribution _____	
Availability Code	
Avail codes	
Rich	Special
A-1	

DOD Has Made Limited Progress in Reducing Acquisition Leadtimes

The value of DOD inventory requirements needed to support acquisition leadtime grew from about \$8 billion in 1979 to about \$21 billion in 1989. Recognizing that excessively long acquisition leadtime was a major contributor to the large growth in defense inventories in the 1980s, in May 1990 DOD directed the military services and DLA to take a number of initiatives to reduce acquisition leadtime as a part of a 10-point Inventory Reduction Plan. The recommended initiatives included (1) establishing procurement leadtime reduction goals, (2) shortening production leadtimes by gradually reducing the required delivery dates in contract solicitations, and (3) expanding multiyear contracting and indefinite quantity requirements contracts. Similar policy guidance for reducing acquisition leadtime, except for establishing reduction goals, was included in DOD Material Management Regulation 4140.1-R, dated January 1993.

The leadtime reduction initiatives were based on a December 1986 DOD memorandum that included the recommendations of a study¹ performed for DOD by the Logistics Management Institute. The DOD memorandum and the Institute study showed that a 25-percent reduction in leadtime was achievable by adopting methods proven successful in the private sector. In stressing the significance of the initiatives, DOD commented that each day the DOD-wide average leadtime is reduced future purchases can be reduced by \$10 million.

Since 1990, DOD has had only limited success in achieving the 25-percent reduction indicated by the study. As shown in table 1, DOD's average leadtime decreased by about 9 percent.

Table 1: Changes in Average Leadtime Days Between 1990 and 1994

DOD component	Leadtime days		Decrease (increase)	
	1990	1994	Days	Percent
Navy	715	522	193	27.0
Army	711	690	21	3.0
Air Force	614	620	(6)	(1.0)
DLA	309	293	16	5.0
DOD average	587	531	56	9.0

On the basis of DOD's estimate that \$10 million can be saved for each day the average leadtime is reduced, the 56-day leadtime reduction resulted in procurement savings of \$560 million. A further leadtime reduction of 91 days will be needed to achieve the 25-percent reduction indicated by

¹Procurement Leadtime: The Forgotten Factor (Logistics Management Institute, Sept. 1986).

the study. Such a reduction would result in additional procurement savings of \$910 million.

None of the DOD components have fully implemented DOD's 1990 leadtime reduction initiatives or its 1993 policy guidance for reducing leadtime, but some have made greater efforts than others. As shown in table 1, the Navy had the greatest success and the Air Force had the least success in reducing acquisition leadtime.

Navy

From 1990 to 1994, the Navy reduced the overall average acquisition leadtime by 193 days, or about 27 percent. This was accomplished by a number of actions. In accordance with DOD initiatives, the Navy first established a leadtime reduction goal of 25 percent. The Navy then had the inventory control points reduce the leadtimes shown in their databases by 25 percent for each item managed. Finally, the Navy took aggressive action over the next 4 years to shorten required delivery dates in contract solicitations and negotiations.

Army

From 1990 to 1994, the Army's average acquisition leadtime decreased by 21 days, or about 3 percent. Unlike the Navy, the Army did not establish a leadtime reduction goal, nor did it take action to obtain leadtime reductions through contract solicitations and negotiations. Instead, the Army emphasized another of DOD's initiatives to reduce leadtime by using more flexible procurement methods such as multiyear procurements and indefinite quantity type contracts.

According to Army officials, quantities for follow-on years can be easily added to multiyear and indefinite quantity type contracts, which will reduce administrative leadtime to a matter of days instead of months. Also, delays in starting up production are minimized. As an example of the impact of these types of contracts, in 1993 the Army reported that a 3-year vehicle roadwheel purchase by the Tank-Automotive Command reduced acquisition leadtime by 13 months (7 months' administrative and 6 months' production) resulting in a savings of about \$19 million. Similarly, by using an indefinite quantity type contract to purchase sprockets, this command reduced acquisition leadtime by 15 months and saved about \$5 million.

Air Force

From 1990 to 1994, the Air Force's average acquisition leadtime increased by 6 days, or about 1 percent. The Air Force did not implement DOD's 1990

leadtime reduction initiatives because it felt that no action was needed to reduce leadtime based on a comparison with the leadtimes of the Navy.

The Air Force delayed implementation of the initiatives pending an evaluation of the Navy's reported success in achieving a 25-percent decrease in production leadtime without degrading mission support. In its evaluation, the Air Force compared aviation data due to the similarity of parts. On the basis of this evaluation, which was completed in December 1993, the Air Force concluded that its production leadtimes for both repairable and consumable aviation parts were lower than the Navy's leadtimes, even after the 25-percent reduction. The Air Force, therefore, concluded that no action was needed to reduce production leadtime.

We analyzed and compared leadtime data for the Air Force and the Navy as shown on their latest available inventory stratification reports of March 31, 1993, and September 30, 1993, respectively. We found that the Air Force's production leadtime was lower for consumable parts, but considerably higher for repairable parts. The Air Force's average production leadtime for repairable parts of 596 days was 176 days, or about 42 percent, higher than the Navy's leadtime of 420 days. Also, the Air Force's overall average acquisition leadtime of 818 days for repairable parts was 299 days, or 58 percent, higher than the Navy's acquisition leadtime of 519 days.

DLA

From 1990 to 1994, DLA's average acquisition leadtime decreased by 16 days, or about 5 percent. DLA did not establish a leadtime reduction goal or attempt to reduce leadtime through contract solicitations and negotiations, as recommended by DoD's leadtime reduction initiatives. Instead, DLA concentrated on various initiatives to automate the procurement source selection process and on increased use of long-term contracting techniques, such as indefinite quantity type contracts.

As the result of a study by its supply centers that identified the potential for shorter leadtimes for high dollar, high demand, long leadtime items, in February 1994 DLA drafted proposed policy guidance for implementing acquisition leadtime reduction initiatives. The proposed policy would require the supply centers to reduce leadtime by 30 percent over a 2-year period from a base of fiscal year 1992 (a reduction of 86 days). To accomplish this reduction, the supply centers would request shorter delivery times in contract solicitations, consider shorter production leadtimes as a factor in competitive bid evaluations, and periodically

validate and update production leadtimes through market surveys. As of October 1994, DLA had not implemented the proposed policy, pending its decision to incorporate the policy as a part of a broader business plan it was developing.

Renewed Emphasis and Improved Oversight Needed to Reduce Leadtime

With the exception of the Navy, the military services and DLA placed no timely emphasis on the effective implementation of DOD's 1990 leadtime reduction initiatives or its 1993 leadtime reduction policy. Also, DOD was not aware of the general lack of progress made over the past 4 years in reducing leadtime because of an absence of adequate oversight information.

The Navy's success in reducing leadtime by 27 percent in comparison to the limited progress made by the other DOD components shows that DOD can benefit by placing renewed emphasis on effective implementation of the leadtime reduction initiatives. One way would be to focus on the Navy's success in establishing a 25-percent reduction goal and achieving that goal by taking aggressive action to reduce production leadtime in contract solicitations and negotiations.

DOD was not aware of the general lack of progress in implementing the initiatives because the annual progress reports required of the military services and DLA did not provide sufficient oversight information to make a meaningful assessment. The reports did not show historical trends in leadtime days before and after the 1990 initiatives. Also, the reports did not provide any meaningful statistics showing the extent of implementation. For example, Army and DLA reports stated that an expansion of multiyear procurements was a primary means of reducing leadtime, but the reports did not provide statistics showing the extent of the expansion.

Opportunities to Reduce Leadtimes Overlooked by DOD's Initiatives

We identified additional opportunities for significant reductions in acquisition leadtime that were overlooked by the DOD initiatives. These opportunities are having inventory management activities (1) periodically validate recorded leadtime data, (2) work closely with major contractors to update old leadtime data for items with long production leadtimes (e.g., over 18 months), and (3) consider potential reductions in leadtime as a factor in deciding whether to purchase spare parts through the prime contractor or directly from the actual manufacturer.

Need to Periodically Validate and Update Leadtimes

We reviewed the accuracy of acquisition leadtimes at the Air Force's Oklahoma City and San Antonio Air Logistics Centers and the Army's Aviation and Troop Command and found that the Army's leadtimes were more accurate. The Army command had a higher accuracy rate than the centers because it had recently worked closely with eight major contractors to update production leadtimes for all items with leadtimes of 18 months or longer. As a result, leadtime changes were made for 1,129 items, or 75 percent of the items reviewed. Leadtime decreases accounted for 1,061, or 94 percent of the changes. The command estimated net annual procurement savings of \$88 million from using updated leadtimes to compute buy requirements.

Although the Army command reduced leadtimes, our review still identified inaccuracies. We tested 26 items and found that the leadtimes for 5 items, or 19 percent, were inaccurate. For example, in July 1994 the Aviation and Troop Command used an administrative leadtime of 9 months in the requirement computation for a rotor blade tip used on the UH-60 Black Hawk helicopter (NSN 1560-01-331-3845). However, procurement history records showed that the administrative leadtime required to process the last two purchases was only 2 months. The item manager told us that the 9-month administrative leadtime was based on the time it took to award a multiyear contract and that the 2 months' administrative leadtime represented the time it took to place orders against the contract. The 2-month administrative leadtime should have been used in making purchasing decisions because it represents the actual ordering time to acquire additional parts once a multiyear contract is awarded. Command officials agreed that an adjustment should be made in the requirements system for the reduced leadtime.

The two Air Force air logistics centers had a higher percentage of leadtime inaccuracies than the Army command. We reviewed the accuracy of acquisition leadtimes for 106 items and found that leadtimes for 53 items, or 50 percent, were inaccurate, resulting in overstated requirements of \$7.3 million. These inaccuracies resulted from the failure to periodically validate and update leadtime data in the requirement computation database. The following examples illustrate the leadtime inaccuracies found.

In November 1993, the Oklahoma City Air Logistics Center was using a production leadtime of 41 months in the requirement computation for a circuit card used on the B-2 bomber (NSN 5998-01-262-8124FW). Procurement history records showed that the 41 months was based on

information provided by the contractor in July 1991. We asked center officials to contact the contractor to verify the accuracy of the leadtime. According to the officials, the contractor stated that the 44-month leadtime was outdated and quoted a current leadtime of 25 months. The 19-month reduction in production leadtime caused the value of requirements for this item to be reduced by \$69,962.

The circuit card is one of six B-2 bomber sample items with old and long leadtimes that the contractor updated. As a result, the Oklahoma City Air Logistics Center reduced leadtimes by an average of 14 months for five items, thus deferring future purchases.

In another case, the San Antonio Air Logistics Center was using an acquisition leadtime of 100 months in the requirement computation for a signal generator used on the F-15 aircraft (NSN 6625-01-051-6832DQ). In response to our inquiries, the item manager said a keypunch error had occurred in March 1993 during file maintenance and corrected the acquisition leadtime to 38 months. Correcting the leadtime reduced the value of requirements and budget estimates for this item by \$408,857.

Purchasing Spare Parts Directly From Actual Manufacturer Can Reduce Leadtimes

DOD promotes the purchase of spare parts from actual manufacturers rather than from prime contractors as a way to increase competition. This process is called spare parts breakout and is recognized as an effective means of achieving price reductions. Spare parts breakout has the added benefit of reducing acquisition leadtime by eliminating the processing time that a prime contractor adds for passing an order to the actual manufacturer.

As part of the inventory reduction plan initiatives, the Army undertook a major program to breakout spare parts from the prime contractor for direct purchase from the actual manufacturer. Although the intent of this program was to bring about procurement economies through elimination of middleman profits, the program also contributed to a reduction in procurement leadtime. In the 1993 progress report on inventory reductions, the Army reported that the inventory commands had screened about 12,000 items for breakout in fiscal year 1992 and identified approximately 6,000 items for breakout from the prime contractor. At the Aviation and Troop Command, for example, the purchase of spare parts for the Blackhawk helicopter had been almost completely broken out. The program manager told us that in his experience production leadtime

always goes down, often times by half, when a spare part is broken out for direct purchase from the actual manufacturer.

Additional opportunities to buy directly from manufacturers continue to exist. For example, in response to our inquiries on six sample items managed by the Air Force's Oklahoma City Air Logistics Center, the prime contractor for the B-2 bomber advised the center that it was not the actual manufacturer for five of the six items. The contractor stated that it added 5 months' leadtime to process the Air Force's order to the actual manufacturer. Center officials agreed that the leadtime to acquire these items could be reduced simply by buying from the actual manufacturer instead of from the prime contractor and informed us that the next purchases would be made directly from the manufacturer.

Recommendations

We recommend that the Secretary of Defense direct the Secretaries of the Army and the Air Force and the Director of DLA to place renewed emphasis on implementing the DoD leadtime reduction initiatives and to improve oversight information reported to DoD so that the progress being achieved can be measured. In doing so, we recommend that the other military services and DLA follow the Navy's lead in setting a leadtime reduction goal and achieving this goal through contract solicitations and negotiations.

We also recommend that the Secretary of Defense direct the Secretaries of the Army, the Navy, and the Air Force and the Director of DLA to have their inventory management activities

- periodically validate recorded leadtime data to detect and correct errors,
- work closely with major contractors in updating old leadtime data for items with long production leadtimes (e.g., over 18 months), and
- consider potential leadtime reductions as a factor in evaluating the feasibility of buying directly from manufacturers instead of from prime contractors.

Agency Comments and Our Evaluation

DoD agreed that further action to reduce acquisition leadtimes is required (see app. I). However, DoD views full implementation of the policy guidance on methods of reducing leadtimes included in DoD Material Management Regulation 4140.1-R, dated January 1993, as the most effective means to accomplish this reduction. DoD stated that the military services and DLA would be reminded of the need to fully implement that guidance.

In a November 23, 1994, memorandum to the military services and DLA, DOD stated that renewed emphasis on acquisition leadtime reduction was appropriate. The memorandum stated that while the greatest emphasis should be placed on full implementation of the guidance in the DOD regulation, such as gradually reducing required delivery dates in solicitations, consideration should be given to the usefulness of leadtime reduction goals and the importance of periodically validating recorded leadtime data. The memorandum also stated that full implementation of the spare parts breakout program could help reduce leadtime and that contractor furnished data could be a useful source of information in validating leadtime data. DOD asked to be advised of the actions taken to reduce leadtimes by February 15, 1995.

With regard to our reference to additional savings of \$910 million from further leadtime reductions leading to a DOD-wide average reduction of 25 percent, DOD commented that the Secretary of Defense issued a memorandum dated September 14, 1994, that challenges DOD components to reduce business-process cycle times by at least 50 percent by the year 2000. DOD stated further that application of this challenge to acquisition leadtime will include an estimate of possible savings.

While DOD's actions are constructive, we do not believe that relying on the military services and DLA to fully implement the January 1993 policy guidance is the most effective means of achieving a 25-percent reduction in acquisition leadtime. The guidance already has been in effect for almost 2 years, and our report points out that only the Navy has been successful in reducing leadtime by 25 percent since 1990. At that time, DOD directed the military services and DLA to take a number of initiatives to reduce acquisition leadtime that are similar to those in the January 1993 guidance. Also, the guidance does not contain a leadtime reduction goal.

Furthermore, we believe that improved oversight is needed if leadtime reductions are to be achieved. DOD's comments do not address this part of our recommendation and the January 1993 guidance does not require the military services and DLA to provide DOD with oversight information on their progress in reducing leadtimes. Also, DOD no longer requires annual reports from the military services and DLA showing their progress in implementing the 1990 inventory reduction plan.

Alternative means are available for providing DOD with oversight information. One way would be to require that the military services and DLA include leadtime data in their annual Defense Business Operations

Fund budget submissions to DoD. These submissions could show the progress being made in achieving a 25-percent reduction in acquisition leadtime, using fiscal year 1990 as the base year for measuring progress.

Scope and Methodology

To evaluate the effectiveness of DoD's leadtime reduction initiatives, we held discussions and collected information at headquarters of DoD, Army, Navy, Air Force, and DLA, Washington, D.C.; the Oklahoma City Air Logistics Center, Tinker Air Force Base, Oklahoma; the San Antonio Air Logistics Center, Kelly Air Force Base, Texas; and the Army Aviation and Troop Command, St. Louis, Missouri. We reviewed DoD guidance and initiatives for managing acquisition leadtimes and the implementing policies, procedures, and practices of the military services and DLA.

To determine if additional leadtime reduction opportunities exist, we obtained computer tapes from the Air Force and the Army that identified acquisition leadtimes for all spare parts managed by the two Air Force air logistics centers and the Army command as of March 31, 1993. From data extracted from the tapes, we selected 106 Air Force items and 26 Army items for review. These items represented a mix of items either planned to be bought in fiscal year 1995 or having long leadtimes of more than 50 months. We compared leadtime estimates used in requirement computations to leadtimes actually experienced and other leadtime information in item manager files. We selected Air Force and Army locations for detailed review because of their large acquisition leadtime requirements.

We used the same computer programs, reports, records, and statistics DoD, the military services, and DLA use to manage inventories, make decisions, and determine requirements. We did not independently determine the reliability of all of these sources. However, as stated above, we did assess the accuracy of the leadtime information by comparing data contained in the requirements system with data contained in item manager files.

We performed our review between October 1993 and August 1994 in accordance with generally accepted government auditing standards.

As you know, the head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of

this report. A written statement must also be submitted to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen and Ranking Minority Members, Senate and House Committees on Appropriations and on Armed Services, Senate Committee on Governmental Affairs, and House Committee on Government Operations; the Secretaries of the Army, the Navy, and the Air Force; the Director, DLA; and the Director, Office of Management and Budget.

Please contact me at (202) 512-5140 if you have any questions. The major contributors to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in black ink, reading "Mark E. Gebicke". The signature is written in a cursive style with a large, stylized "M" and "G".

Mark E. Gebicke
Director, Military Operations
and Capabilities Issues

Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000



22 NOV 1994

(L/MDH)

Mr. Henry L. Hinton, Jr.
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

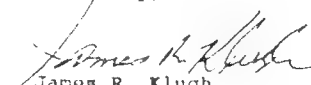
Dear Mr. Hinton:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "DEFENSE SUPPLY: Acquisition Leadtime Requirements Can Be Significantly Reduced," dated September 29, 1994 (GAO Code 703035), OSD Case 9792. The Department partially concurs with the report.

The DoD agrees that further action to reduce acquisition lead times is required. However, the DoD views full implementation of the specific guidance on methods of reducing lead times included in the DoD Materiel Management Regulation as the most effective means to accomplish that reduction. By November 30, 1994, the DoD Components will be reminded of the need to fully implement that guidance, as well as of the usefulness of lead time reduction goals and the importance of periodically validating recorded lead time data, as the GAO recommends. The reminder memorandum will cite contractor furnished data as another source of information in validating lead time data, and will emphasize the need to fully implement existing breakout procedures.

The detailed DoD comments on the draft report findings and recommendations are provided in the enclosure. The DoD appreciates the opportunity to comment on the draft report.

Sincerely,


James R. Klugh
Deputy Under Secretary
of Defense (Logistics)

Enclosure



GAO DRAFT REPORT - DATED SEPTEMBER 29, 1994
(GAO CODE 703035) OSD CASE 9792

"DEFENSE SUPPLY: ACQUISITION LEADTIME REQUIREMENTS
CAN BE SIGNIFICANTLY REDUCED"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *

FINDINGS

- **FINDING A: The DoD Has Made Limited Progress In Reducing Acquisition Leadtimes.** The GAO reported that the value of DoD inventory requirements needed to support acquisition leadtime grew from about \$8 billion in 1979, to \$21 billion in 1989. The GAO noted that recognizing excessively long acquisition leadtime was a major contributor to the large growth in the inventories in the 1980s, the DoD issued an Inventory Reduction Plan in May 1990 that directed the Military Services and the Defense Logistics Agency (DLA) to take a number of initiatives to reduce acquisition leadtime, including (1) establishing procurement leadtime reduction goals, (2) shortening production leadtimes by gradually reducing the required delivery dates in contract solicitations, and (3) expanding multiyear contracting and indefinite quantity requirements contracts.

The GAO explained that the leadtime reduction initiatives were based on a DoD study that showed a 25-percent reduction in leadtime was achievable by adopting methods proven successful in the private sector. In stressing the significance of the leadtime reduction initiatives, the GAO pointed out that the DoD stated that each day the DoD-wide average leadtime is reduced, future purchases can be reduced by \$10 million.

The GAO found that since 1990, the DoD has had only limited success in achieving the 25-percent reduction indicated by the study, with the overall leadtime reduction averaging about 9 percent. On the basis of the DoD estimate that \$10 million can be saved for each day the average leadtime is reduced, the GAO estimated that the 56 day leadtime reduction resulted in procurement savings of \$560 million. The GAO observed that a further leadtime reduction of 91 days will be needed to achieve the 25-percent reduction indicated by the DoD study, which would result in additional procurement savings of \$910 million. (pp. 1-4/GAO Draft Report)

DoD RESPONSE: Partially concur. The 1986 study referred to by the GAO was performed by the Logistics Management

ENCLOSURE

Now on pp. 1-3.

See comment 1.

Institute, not the DoD. Furthermore, the lead time reduction initiatives that were part of the May 1990 Inventory Reduction Plan did not represent implementation of the recommendations of the 1986 Logistics Management Institute report. Instead, those recommendations were included in a December 1986 memorandum from the then Under Secretary of Defense (Acquisition) to the DoD Components. The GAO issued a report in May 1990 (GAO/NSIAD-90-124, "DEFENSE INVENTORY: Defense Logistics Agency Needs to Better Manage Procurement Leadtimes," OSD Case 8249) explicitly acknowledging both: (1) that the 1986 study was performed by the Logistics Management Institute and (2) that the Under Secretary's December 1986 memorandum included the Logistics Management Institute recommendations.

See comment 2.

The DoD does not agree with the GAO assertion that lead time reduction was a primary objective of the 1990 DoD Inventory Reduction Plan. Lead time reduction is cited as one among several methods of reducing materiel replenishment stockage objectives, which in turn was one element of the "10-Point Program" to reduce inventory.

Regarding the GAO reference to prospective additional savings of \$910 million from further lead time reductions, the DoD notes that the Secretary of Defense issued a memorandum dated September 14, 1994--prior to the GAO draft report--on the subject of reducing cycle times. The Secretary's memorandum challenged the DoD Components to reduce business-process cycle times by at least 50 percent by the year 2000. Application of that guidance to acquisition lead times for secondary items will include an estimate of possible savings.

- FINDING B: Efforts By the DoD Components To Implement the DoD Leadtime Reduction Initiatives. The GAO found that none of the DoD components have fully implemented the 1990 leadtime reduction initiatives, but some have made greater efforts than others, with the greatest success achieved by the Navy. The GAO reported that from 1990 to 1994, the Navy reduced the overall average acquisition leadtime by 193 days, or about 27 percent, through several actions. The GAO explained that in accord with the DoD initiatives, the Navy first established a leadtime reduction goal of 25 percent, and then had the inventory control points reduce the leadtimes shown in their data bases by 25 percent for each item managed. The GAO reported that the Navy also took aggressive action over the next 4 years to shorten required delivery dates in contract solicitations and negotiations.

The GAO reported that from 1990 to 1994, the Army average acquisition leadtime decreased by 21 days, or about 3 percent. The GAO found that unlike the Navy, the Army did not establish a leadtime reduction goal, nor did it take action to obtain leadtime reductions through contract solicitations and negotiations. The GAO found that instead, the Army emphasized another of the DoD initiatives to reduce leadtime by using more flexible procurement methods, such as multiyear procurements and indefinite quantity type contracts.

The GAO found that the Air Force average acquisition leadtime increased by 6 days, or about 1 percent, from 1990 to 1994. According to the GAO, the Air Force did not implement the 1990 reduction initiatives because it felt that no action was needed to reduce leadtime based on a comparison with the leadtimes of the Navy. The GAO further reported that the Air Force withheld implementation of the DoD initiatives, pending an evaluation of the success reported by the Navy in achieving a 25 percent decrease. The GAO noted that the Air Force evaluation compared aviation parts and determined that its production leadtimes for both repairable and consumable aviation parts were lower than the Navy leadtimes, even after the 25-percent reduction. The GAO reviewed leadtime data for the Air Force and the Navy, as shown on their latest available inventory stratification reports of March 31, 1993, and September 30, 1993, respectively. The GAO found that while the Air Force production leadtime was lower for consumable parts, it was considerably higher for repairable parts. (pp. 5-8/GAO Draft Report)

DoD RESPONSE: Partially concur. The draft report incorrectly infers that the focus of the May 1990 Inventory Reduction Plan was to reduce lead times. The primary objective of the 1990 Plan was to reduce inventory. The reduction of lead times was only one of several methods identified to achieve a reduced inventory.

The Department is not aware, as stated in the GAO draft report, that the Air Force "withheld implementation" of the DoD lead time reduction initiatives. In fact, the Air Force did implement the 1990 Inventory Reduction Plan.

- **FINDING C: Renewed Emphasis and Improved Oversight Needed To Reduce Leadtime.** The GAO found that, with the exception of the Navy, the Services and the DLA have placed no timely emphasis on the effective implementation of the DoD leadtime reduction initiatives. The GAO also found that the office of the Secretary of Defense (OSD) was not aware of the general lack of progress made over the past 4 years in reducing

leadtime because of an absence of adequate oversight information. The GAO suggested that one way to do so would be to focus on the success by the Navy in establishing a 25-percent reduction goal and achieving that goal by taking aggressive action to reduce production leadtime in contract solicitations and negotiations.

According to the GAO, the OSD was not aware of the general lack of progress in implementing the initiatives, because the annual progress reports required of the Military Services and the DLA did not provide sufficient oversight information to make a meaningful assessment. The GAO explained that the reports did not show historical trends in leadtime days before and after the 1990 initiatives, nor did the reports provide any meaningful statistics showing the extent of implementation. The GAO pointed out, for example, that the Army and the DLA reports stated that an expansion of multiyear procurements was a primary means of reducing leadtime, but did not provide statistics showing the extent of the expansion. (p. 2, pp. 8-9/GAO Draft Report)

Now on pp. 1 and 5.

See comment 2.

DoD RESPONSE: Partially concur. As discussed in the DoD response to Finding A, the DoD does not agree with the GAO assertion that lead time reduction was a primary objective of the 1990 Inventory Reduction Plan. The objective of that Plan was to reduce inventory. The progress of the DoD in achieving that objective has been the subject of prior GAO reports.

See comment 4.

Furthermore, the DoD does not agree with the GAO portrayal of the DoD emphasis on lead time reduction initiatives since 1990. For example, the GAO overlooks the specific guidance on methods of reducing lead times included in the DoD Materiel Management Regulation, DoD 4140.1-R, issued in January 1993: "Innovative methods of reducing Acquisition Lead Times should be employed. Particular emphasis should be given to the adoption, where appropriate, of lead time reduction methods which have proven successful in the private sector. Such methods include, but are not limited to, multi-year contracting, "just-in-time" procedures, indefinite quantity requirements contracts, phased deliveries, and gradual reduction of required delivery dates." The DoD maintains that full implementation of that guidance offers the most effective method of lead time reduction.

FINDING D: Opportunities To Reduce Leadtimes Overlooked By the DoD Initiatives. The GAO identified several opportunities for significant reductions in acquisition leadtime that were overlooked by the DoD initiatives. The GAO reported that those opportunities would have inventory managers:

- periodically validate recorded leadtime data;
- work closely with major contractors to update old leadtime data for items with long production leadtimes (those over 18 months); and
- consider potential reductions in leadtime as a factor in deciding whether to purchase spare parts through the prime contractor or directly from the manufacturer.

The GAO reported that it reviewed the accuracy of acquisition leadtimes at two Air Force Air Logistics Centers and the Army Aviation and Troop Command and found that the Army leadtimes were more accurate. The GAO determined that the Army Command had a higher accuracy rate than the Air Force Logistics Centers because it had recently worked closely with 8 major contractors to update production leadtimes for all items with leadtimes of 18 months or longer. The GAO found that as a result, leadtime changes were made for 1,129 items, or 75 percent of the items reviewed, and leadtime decreases accounted for 1,061, or 94 percent of the changes. According to the GAO, the Command estimated net annual procurement savings of \$88 million from using updated leadtimes to compute buy requirements. The GAO also found, however, that even though the Army Command reduced leadtimes, there were still inaccuracies in 5 of 26 items the GAO tested.

At the two Air Force Air Logistics Centers, the GAO reviewed the accuracy of acquisition leadtimes for 106 items and found that leadtimes for 56 items, or 53 percent, were inaccurate, resulting in overstated requirements of \$7.5 million. The GAO concluded that the inaccuracies resulted from the failure to periodically validate and update leadtime data in the requirement computation data base and discussed several examples to illustrate the situation.

The GAO reported that the DoD promotes the purchase of spare parts from actual manufacturers, rather than from prime contractors, as a way to increase competition. The GAO pointed out that the process, known as spare parts breakout, is recognized as an effective means of achieving price reductions. The GAO noted that in addition, spare parts breakout has the added benefit of reducing acquisition leadtime by eliminating the processing time that a prime contractor adds for passing an order to the actual manufacturer.

The GAO found that as part of the inventory reduction plan initiatives, the Army undertook a major program to breakout

spare parts from the prime contractor for direct purchase from the actual manufacturer. The GAO reported that although the intent of the program was to bring about procurement economies through elimination of middleman profits, the program also contributed to a reduction in procurement leadtime. The GAO noted that in the 1993 progress report on inventory reductions, the Army reported that the inventory commands had screened about 12,000 items for breakout in FY 1992, and identified approximately 6,000 items for breakout from the prime contractor. The GAO also cited examples indicating that additional opportunities continue to exist to buy directly from manufacturers.

The GAO concluded that the DoD can reduce acquisition leadtime days by at least 25 percent over a 4-year period, at a savings of about \$1 billion. The GAO stated that the reduction can be accomplished by renewing the emphasis on prompt implementation of the 1990 DoD initiatives, by periodically validating and updating old leadtime data for long leadtime items, and by considering leadtime reductions as a factor in deciding whether to continue purchasing spare parts from the prime contractor or to purchase them from the actual manufacturer. (p. 2, pp. 10-14/GAO Draft Report)

DoD RESPONSE: Partially concur. It should be recognized that contractor furnished data should be used with caution since experience shows such data can be unreliable (as recognized by the GAO in the January 1988 GAO report GAO/NSIAD-88-7, "CONTRACT PRICING: Contractor Cost Estimating Systems," OSD Case 7538). Furthermore, as discussed in the DoD response to Finding C, the DoD considers full implementation of the specific guidance on methods of reducing lead times in the DoD Material Management Regulation as the most effective method of lead time reduction.

* * * * *

RECOMMENDATIONS

- **RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense direct the Secretaries of the Army and the Air Force, and the Director of the DLA, to place renewed emphasis on implementing the DoD leadtime reduction initiatives, and to improve oversight information reported to the OSD, so that the progress being achieved can be measured. The GAO further recommended that in doing so, the other Military Services and the DLA should follow the Navy lead in setting a leadtime

Now on p. 8.

reduction goal and achieving the goal through contract solicitations and negotiations. (p. 15/GAO Draft Report)

DoD RESPONSE: Partially concur. As discussed in the DoD response to Finding C, the DoD regards full implementation of the specific guidance on reducing lead times provided in the DoD Material Management Regulation, issued in January 1993, as the most effective method of lead time reduction. A memorandum emphasizing the importance of fully implementing that guidance, and of the potential usefulness of lead time reduction goals, will be provided to the DoD Components by November 30, 1994.

Now on p. 8.

- **RECOMMENDATION 2:** The GAO recommended that the Secretary of Defense direct the Secretaries of the Army, Navy, and Air Force, and the Director of the DLA, to have their inventory managers periodically validate recorded leadtime data to detect and correct errors. (p. 15/GAO Draft Report)

DoD RESPONSE: Concur. The guidance to be provided to the DoD Components by November 30, 1994, as discussed in the DoD response to Recommendation 1, will include a reminder of the importance of periodically validating recorded lead time data.

Now on p. 8.

- **RECOMMENDATION 3:** The GAO recommended that the Secretary of Defense direct the Secretaries of the Army, Navy, and Air Force, and the Director of the DLA, to have their inventory managers work closely with major contractors in updating old leadtime data for items with long production leadtimes (e.g. over 18 months). (p. 15/GAO Draft Report)

DoD RESPONSE: Partially concur. As discussed in the DoD response to Finding D, contractor furnished data should be used with caution, since experience shows such data can be unreliable. The guidance discussed in the DoD response to Recommendation 1 to be provided to the DoD Components will include a suggestion that contractor furnished data be considered as another source of information in validating lead time data.

Now on p. 8.

- **RECOMMENDATION 4:** The GAO recommended that the Secretary of Defense direct the Secretaries of the Army, Navy, and Air Force, and the Director of the DLA, to have their inventory managers consider potential leadtime reductions as a factor in evaluating the feasibility of buying directly from manufacturers, instead of from prime contractors. (p. 15/GAO Draft Report)

Appendix I
Comments From the Department of Defense

See comment 5.

DoD RESPONSE: Partially concur. Inventory managers do not perform the breakout function. However, by November 30, 1994, as discussed in the DoD response to Recommendation 1, the guidance to be provided to the DoD Components will emphasize the importance of full implementation of existing breakout procedures.

The following are GAO's comments on the Department of Defense's (DOD) letter dated November 22, 1994.

GAO Comments

1. We revised page 2 in accordance with DOD's suggestions.
2. We revised page 2 as suggested by DOD.
3. We revised page 4 to address DOD's concern.
4. We added references to DOD's policy guidance on reducing leadtime, as set forth in DOD Regulation 4140.1-R, dated January 1993, on page 2.
5. We changed "inventory managers" to "inventory management activities" on pages 5 and 8, as suggested by DOD.

Major Contributors to This Report

National Security and International Affairs Division, Washington, D.C.

James Murphy, Assistant Director
Thomas Wells, Assignment Manager
Melvin Wagman, Evaluator

Dallas Regional Office

Roger Tomlinson, Evaluator-in-Charge
Bonnie Carter, Evaluator
Rebecca Pierce, Evaluator